



Leaving public school employment?

State of Michigan
Public School Employees Retirement System

May 2005

So you're leaving?

Since the day you started working at a Michigan public school, you've been accumulating future retirement benefits through Michigan's Public School Employees Retirement System. The Office of Retirement Services (ORS), a state agency, administers these benefits.

As you leave public school employment, you may have questions about what will happen to those retirement benefits. If you're not ready to retire, either because you haven't worked enough years or you're too young to qualify for a monthly pension benefit, this publication will help you understand what options are available so you can better manage your retirement investments.

Note: If you're close to meeting the minimum age and service requirement for a pension benefit, be sure to ask ORS for *Retirement Readiness: A Two-Year Countdown* before making any decisions.

Think about your choices

All *Member Investment Plan (MIP)* members and some *Basic Plan* members had *personal contributions* withheld from their wages and deposited with the retirement system. If you purchased any *service credit*, this is also considered part of your personal contributions. These contributions normally help fund your future monthly pension benefits once you reach retirement age.

However, when you leave public school employment before you're eligible to retire, you can choose what to do with your retirement account.

- You can leave your contributions on account.
- OR
- You can request a refund of the money you've paid into your retirement account.

One of the biggest factors in your decision should be whether or not you are *vested* before you leave public school employment.

How do I know if I'm VESTED?

You are vested for a future monthly pension benefit when you have the equivalent of 10 years of full-time employment. (If you're 60 or older, you may be able to vest with less than 10 years of service. Read about retirement eligibility on the ORS website or ask for the publication *Your Retirement Plan: A Member Handbook*.)

How much service credit do I have?

Each year that you're actively employed with a participating Michigan public school, you receive a *Member Statement* from ORS. Your most recent statement will tell you how much service credit you have accumulated as of the end of the last school fiscal year (July 1 through June 30).

Member Investment Plan (MIP):

This contributory plan was introduced in late 1986 to replace the Basic Plan. Members at that time could choose between the two plans. If you were first hired in 1990 or later, you are a MIP member.

Basic Plan: The pension plan for public school employees until the Member Investment Plan was introduced in 1986. This plan was mostly funded by employer contributions.

personal contributions: The funds your employer deducted from your paycheck plus any purchases of service credit you've made are all personal contributions.

service credit: Typically, you earn one year of credit when you work full-time for an entire school year. Many members also purchase or transfer service credit to qualify earlier or to increase their pension amount.

vesting: You become vested when you have enough service credit to qualify for a future monthly benefit, whether you keep working or not.

deferred retirement: If you stop working after you're vested but before you're old enough for a pension benefit, you will be a deferred member until you meet the age requirement and file your pension application.

survivor pension beneficiary: The person eligible to receive a monthly pension upon your death. You can name your spouse or unmarried minor child; or your sibling, child over 18, or parent who depends on you for support.

refund beneficiary: If you die without an eligible survivor pension beneficiary, we will send any personal contributions on account to your refund beneficiary.



I'm **NOT VESTED**. What should I do?

If you have less than 10 years of service credit when you leave school employment, you're not eligible for a monthly pension benefit. You can leave your personal contributions on deposit, where they will continue to earn interest annually. Or, you can request a refund (or transfer your personal contributions and interest to another qualified retirement plan) at any time after you terminate.

Should I take a refund?

Consider the following points before you request a refund.

- **All service credit is forfeited.** By requesting a refund of contributions and withdrawing from the system, you forfeit all of the corresponding service credit. You also forfeit all future rights to a monthly pension and any insurance benefits that go along with it, for you and your beneficiary.
- **Reinstating service.** If you return to public school employment you'll start again with no service credit, unless you want to repay the amount that was refunded to you plus any interest that would have been credited in the interim.
- **It's all or none.** You cannot request a partial refund—all personal contributions must be refunded with all corresponding service forfeited.
- **Taxes and potential penalties.** Any refund may be subject to federal tax withholding and early withdrawal penalties, as required by the IRS. We recommend you talk with your tax advisor about the tax implications before you request a refund.



- **Consider a plan-to-plan transfer.** You can transfer the amount of your personal contributions and accumulated interest to another qualified tax-deferred savings plan to avoid taxes and penalties. Again, talk with your tax advisor and confirm with your plan administrator that your transfer meets IRS requirements.
- **Other issues to consider.** No loans can be made against your personal contribution account. If you worked during any noncontributory period, service for that period will remain on your record even if you take a refund of your contributions.

Before making a final decision about what to do with your personal contributions, consider your future employment plans. If you return to Michigan public school employment in the future, your previous service will count towards future monthly pension benefits, assuming you leave your contributions on deposit. Or those contributions might help you qualify for future retirement benefits through another public employer's retirement system.

If you decide you want to request a refund, you can find the *Refund Application* on the ORS website. Return the completed form to ORS and we will either send you the account balance in a lump sum (less required tax withholding) or send the full amount as a transfer to your qualified retirement plan administrator, as you request.

What happens if I die?

If you did not take a refund, upon notification by your survivor, we will return any personal contributions and accumulated interest to your *refund beneficiary* or your estate. Before you leave your job, complete a *Beneficiary Nomination* form to designate who will receive your contributions. Send it to ORS, not your human resource office. If no form is on file, your personal contributions and accumulated interest may be distributed by probate court order.

I'm VESTED. What should I do?

If you are vested with 10 years of service credit when you leave public school employment and you leave your contributions on deposit with ORS, you will be eligible for monthly pension benefits when you reach the minimum age for full retirement. Because you are deferring your pension until you reach the minimum age for retirement, you are a *deferred member*.

Can I take a refund?

Rarely is it advisable to take a refund of your personal contributions once you are vested. A refund forfeits all rights to any future pension and insurance benefits for you and your beneficiary. Carefully weigh your personal contributions against the value of your future lifetime pension and insurance benefits.



When can I get my pension?

Most deferred members will be eligible at age 60. If you have 30 years of service, it will be sooner.

Be sure to apply three to six months before you meet the age requirement—your pension won't be any higher if you wait, and you could even lose money by waiting.

Your pension is calculated the same as a full retirement. For complete details about eligibility and estimating your pension amount, ask for the ORS publication *Retirement Readiness: A Two-Year Countdown*.

Will I get insurance benefits?

You may be eligible for group insurances as a retiree. You may also qualify for an insurance premium subsidy if you had at least 21 years of service when you terminated. Your premium subsidy is based on the number of credited years of service over 20. If you left public school employment with less than 21 years of service, you may be able to enroll in group insurances, but will need to pay the full premium.

What happens if I die?

If you die before retiring (while in deferred status), your eligible *survivor pension beneficiary* will qualify for a monthly pension and insurances provided (1) you have at least 10 years of service credit (15 years if you're a Basic Plan member); AND (2) you filed a *Beneficiary Nomination* form with ORS *before* you terminated employment. Beneficiaries eligible for a monthly pension benefit include your spouse or an unmarried child under age 18; OR a child over 18, parent, brother, or sister who is dependent on you for support.

The deferred monthly survivor pension becomes payable the month following when you would have turned 60; it is paid as if you had chosen the 100 percent survivor option.

If you did not file a *Beneficiary Nomination* form while actively employed, or your named beneficiary does not meet the eligibility requirements for a pension benefit, no monthly pension benefit can be paid. A refund of personal contributions and accumulated interest will be paid.

Can I change my beneficiary?

As long as you had a *Beneficiary Nomination* form on file with ORS before you left employment, you can update your beneficiary designation at any time before you retire. However, if you did not complete one while actively employed, you cannot initiate one while in deferred status.

The beneficiary nomination form is available on the ORS website. Be sure to send your completed form directly to ORS. Do not file it with your human resource office. Keep a copy of it, along with this brochure, with your important papers.

When to contact us

Before You Leave

- File an updated *Beneficiary Nomination* form with ORS before you terminate employment. You can download the form from the ORS website.
- Review your retirement account. Make sure you understand how your termination could affect your future retirement plans.

After You Leave

- As long as you have personal contributions on deposit, keep your address updated. We will not be able to reach you through your employer.
- If your marital status changes or the beneficiary you've named is no longer eligible, contact ORS. For example, if you marry or divorce you may need to change your address, your name, or your beneficiary designation. If you've named a child as your pension beneficiary and this individual no longer depends on you for support, you may need to name a different beneficiary.

Preparing for Retirement

- If you're in deferred status, attend a preretirement seminar a few years before you reach age 60. Check the ORS website for a schedule of seminars in your area.
- About 3-6 months before you reach eligibility age, contact ORS to request a retirement application.

If You Die

- Your survivor should contact us upon your death even if he or she is not eligible for a monthly survivor pension benefit. We will ask for your social security number to identify your retirement account and we may request a copy of your death certificate. We will then review your record to determine what is payable.

We're here to help

We hope that this publication answers your questions about your retirement plan and benefits as you leave public school employment. If you have any additional questions, please don't hesitate to contact us. The ORS vision—to *provide complete and accurate information and exceptional service*—is one we take very seriously.



www.michigan.gov/ors



ORSCustomerService@michigan.gov



(800) 381-5111
Within Lansing (517) 322-5103



P.O. Box 30171
Lansing, MI 48909-7671



Visit our main office at the corner of Harris Drive and Ricks Road in southwest Lansing between 8:30-5:00 weekdays. Or call (313) 456-4010 for an appointment at our outreach office at Cadillac Place in Detroit.



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